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THE TAX SPECIALISTS

Our pick of the key changes happening in 2013/14

Forbes Dawson LLP

20 March 2013

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Reduction in top rate of income tax

From 6 April 2013 the top rate of income tax for individuals earning over £150,000 per annum will fall from the current rate of 50% to 45%.

The effective rate of tax for dividends received by individuals falling in the top tax bracket also reduces from the current rate of 36.11% to 30.55%.

Our View:

As we have previously said, a 5% cut is welcome, but there is still a vast differential between the amounts levied on income receipts compared to capital gains tax. For example there is a rate differential of 19% between income tax and national insurance contributions at 47% and capital gains tax of 28%. Any planning should therefore be undertaken with care, especially in the wake of the new disguised remuneration rules.

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New employee shareholder status

A new ‘employee shareholder’ employment status will be introduced in Finance Bill 2013. An employee shareholder will be eligible to receive tax-favoured shares in a company. Up to £50,000 of shares will be exempt from capital gains tax upon disposal.

The employee shareholder will be deemed to have paid £2,000 for the shares on acquisition. This amount will not be subject to income tax or national insurance. In addition, a company can claim corporation tax relief against the acquisition of the shares.

Our View:

Individuals who become employee shareholders must agree to give up certain employment rights in exchange for tax favoured shares in a company. The giving up of employment rights may raise an element of concern, and further clarity is required.

However, this is the first approved employee share plan to be introduced in a number of years, and on the whole it is good news. It provides a tax efficient method of incentivising employees to help grow the business.

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Anti-avoidance legislation for offshore structures narrowed

Historically, there has been wide-ranging anti-avoidance legislation which has effectively deterred UK resident individuals from carrying out economic activities in structures in low tax jurisdictions. This is because the legislation had the effect of taxing them personally in respect of the profits made by those entities. Due to pressure from the EU this has now been relaxed with retrospective effect from 6 April 2012. The amended legislation should not be able to attack transactions which have genuine commercial substance in the overseas jurisdictions.

Our View:

We welcome this news and are pleased that it is not restricted to EU countries (as was anticipated). This is particularly welcome for UK individuals who are conducting businesses not tied to the UK (e.g. international logistics or overseas manufacturing) because it provides scope for them to locate the business in jurisdictions with lower tax rates. We are anticipating a surge of interest in places like Malta where corporate tax rates can be limited to 5% with appropriate structuring.

Increase in Annual Investment Allowance

As previously announced in the Autumn Statement, the Annual Investment Allowance, which allows businesses to obtain a 100% allowance on qualifying capital expenditure, compared to the normal writing down allowances, is increased tenfold from 1 January 2013. Businesses can now get full relief in the year of expenditure for up to £250,000 of their capital purchases.

Our View:

This is welcome news and in particular should help small businesses to continue to invest through the downturn. Businesses with a year-end which is approaching (i.e. March, April, May) should take this opportunity to consider bringing forward capital expenditure into this financial year to take advantage of the tenfold increase in the allowance for the last few months. Hire purchase is a good way of doing this because, whilst the asset can be paid for over a longer term, the tax relief is given at the date the unconditional obligation to pay arises (usually the date of the agreement).

Inheritance tax: spouses and civil partners domiciled overseas

The Budget confirms that the Government will:

- Increase the inheritance tax exempt amount that a UK-domiciled individual can transfer to their non-UK domiciled spouse or civil partner from £55,000 to the nil rate band (currently £325,000);and
- allow individuals, who are domiciled outside the UK and who have a UK-domiciled spouse or civil partner, to elect to be treated as domiciled in the UK for the purposes of inheritance tax.

The increased allowance will apply to transfers on or after 6 April 2013.

Our View:

We welcome the extension of the allowance, although in reality this is not of direct relevance except where the donor dies within seven years of making a gift to their spouse, or on bequests in their Will. Electing into UK-domicile treatment for inheritance tax purposes will require careful consideration. An election will be irrevocable while an individual remains UK resident and although it will mean that transfers from a UK-domiciled spouse or civil partner will be exempt from inheritance tax, it will also bring the individual's worldwide estate within the UK inheritance tax charge.

£2,000 National Insurance Allowance

From April 2014 all businesses will be entitled to an employer's national insurance allowance of £2,000 per year.

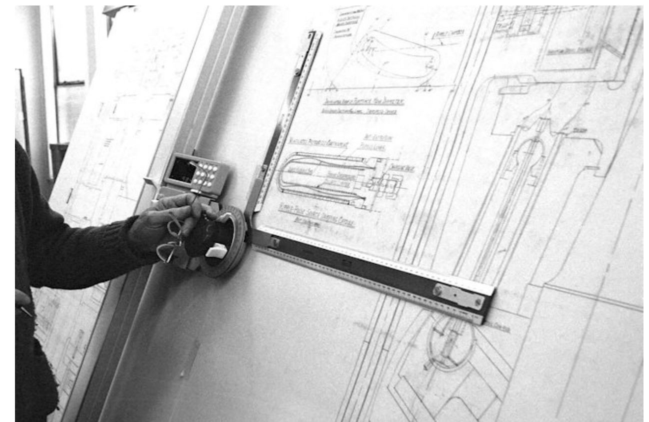
Our View:

This is welcome news for small businesses. It will allow a company to hire an employee earning £22,400, or four workers on minimum wage, without a charge to employer's national insurance.

It is hoped that the allowance will incentivise employers to take on more staff, or take the saving and boost their margins and profitability. Further clarification on exactly how this will work is required.

Patent Box

Albeit previously announced, it is worth noting that Patent Box, the new form of tax relief for companies who engage in innovation comes into force from 1 April 2013. In headline terms, the relief provides for a 10% tax rate on profits which arise from the sale of patented products, compared to the main rate of corporation tax (which from 1 April 2013 will be 23%).



Our View:

This is one of the most significant new tax reliefs for many years and we are already working closely with clients to ensure that they benefit from the potential savings, as the mechanics of how the relief work can be complex. Companies who have been put off patenting their products in the past – perhaps because of the cost of implementation – should look at whether Patent Box could bridge the gap.

Seed Enterprise Investment Scheme

The current capital gains tax relief given to investors in the Seed Enterprise Investment Scheme (SEIS) will be extended to 2013/14. Chargeable gains realised in 2013/14 which are re-invested in the SEIS in either 2013/14 or 2014/15 will attract this relief. However, the current rate of tax relief will be halved, so only 50% of the re-invested amount will be exempt from capital gains tax. The maximum amount of tax saving will therefore be reduced to £14,000 for a 28% capital gains tax payer.

Our View:

These changes continue to encourage investment in small, early stage companies and help maintain the momentum of the current investment relief.

The risk of investing in a start-up company must be weighed up against the effective 14% (i.e. 28% x 50%) capital gains tax relief on a chargeable gain made.

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Increased threshold for employment-related loans

The threshold upon which an employee will be taxed on a 'cheap loan' will increase from £5,000 to £10,000.

There will be no reporting requirements or tax charges for loan balances under £10,000 outstanding from 6 April 2013.

Our View:

This is good news for companies and employees where beneficial loans between these two limits have been made. The company will benefit from reduced administrative costs (P11D reporting) and the employee will benefit from a tax exemption on any outstanding loans of £10,000 or less.

This measure should help companies deliver a more flexible reward package to current or prospective employees, without the adverse tax and administrative implications.

Corporation tax cut to 20%

As was widely expected, the Chancellor has announced that the main rate of Corporation Tax will be cut again so that from 1 April 2015 there will be a single rate for all companies of 20%. This follows the previously announced cuts to 23% (from 1 April 2013) and 21% (from 1 April 2014).

Our View:

This further cut in rates is highly positive, meaning that the UK will have one of the most favourable corporation tax regimes of the G20. For current non-incorporated businesses, such as partnerships, there could be a real tax benefit to be achieved via a full or partial incorporation. Hybrid structures, such as LLPs where one of the members is a company, can, where commercially viable, offer a 'best of both worlds' solution. Clients should get in touch if this is something they wish to consider.